Margaret Thatcher's Privatization Legacy

Chris Edwards

Economic policy has taken an antimarket turn in recent years, with many nations increasing regulations, running large deficits, and embracing repeated stimulus actions by central banks. There is, however, one good-news story in economic policy that is often overlooked: the ongoing privatization revolution that has swept the world since the 1980s. Governments in more than 100 countries have moved thousands of state-owned businesses to the private sector. Airlines, railroads, postal services, electric utilities, and many other types of businesses valued at more than $3.3 trillion have been privatized over the last three decades (Megginson 2015).

The revolution was launched by Margaret Thatcher, British prime minister from 1979 to 1990. She came to power determined to revive the stagnant British economy with market-based reforms. Her government deregulated, cut marginal tax rates, repealed exchange controls, and tamed militant labor unions. But it was privatization that became her most important and enduring economic legacy. Thatcher popularized the word *privatization,* and she oversaw the sale of many major businesses, including British Airways, British Telecom, British Steel, and British Gas.

Spurred by the success of Thatcher's reforms, privatization swept through developed and developing nations in Europe, Latin America, and elsewhere. Other nations followed Britain's lead

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Chris Edwards is Editor of www.DownsizingGovernment.org at the Cato Institute.

because of “disillusionment with the generally poor performance of state-owned enterprises and the desire to improve efficiency of bloated and often failing companies,” noted a report on privatization by the Organisation for Economic Cooperation and Development (OECD 2003: 21).

Privatization has had a huge effect on the global economy. It has spurred economic growth and improved living standards as privatized businesses cut costs, increased service quality, and innovated. The reforms also “massively increased the size and efficiency of the world’s capital markets,” argues William Megginson in his book, *The Financial Economics of Privatization* (2005: 4). Many of the largest share offerings in world history have been privatizations, and a large share of global stock market capitalization is from privatized companies.

It is inspiring to look back at Margaret Thatcher’s privatization triumph. But for U.S. policymakers, there are practical lessons as well. Many types of businesses that Britain privatized are still partly or wholly in government hands in the United States, including airports, seaports, postal services, air traffic control, electric utilities, and passenger rail. To tackle lackluster U.S. growth, policymakers should pursue privatization in order to increase productivity and inject more dynamism into the economy.

Britain Blazes the Trail

In a 1969 essay, management expert Peter Drucker said that politicians in the 20th century had been “hypnotized by government . . . in love with it and saw no limits to its abilities” (1969: 4). But he said that the love affair was coming to an end as the mismanagement of state-owned businesses was becoming more apparent everywhere. Drucker called for a “reprivatization” of government activities. But he was ahead of his time, as many developed economies struggled through years of stagflation before new leaders emerged to begin making pro-market reforms.

Margaret Thatcher was elected Conservative Party leader in 1975, and her party gained a parliamentary majority in 1979. Prime Minister Thatcher came into office promising to “denationalize” the government-dominated economy. However, she faced numerous crises her first few years in office that limited her privatization efforts, including a deep recession, high inflation, labor union strife, and the Falklands War.

At first, Thatcher and the Conservatives were politically cautious about privatization, and they did not have a detailed agenda to pursue it. But they learned as they went, and some early successes generated momentum for further reforms. One early reform was the popular "Right to Buy" law, which allowed people to buy the government-owned "council" houses that they lived in. With that successful reform, the share of British households in government council housing plunged from 31 percent in 1981 to just 7 percent today (Department for Communities and Local Government 2016: Annex Table 1.1).

With the economy recovering in the early 1980s, and with Thatcher reelected with a large majority in 1983, the British privatization program kicked into high gear. Campaigning in 1983, the Conservatives promised widespread privatizations, and that created a strong mandate for them to move boldly after their landslide election victory.

Thatcher had a strong personal belief in privatization. Privatization was crucial for "reversing the corrosive and corrupting effects of socialism," she said, and central to "reclaiming territory for freedom" (Thatcher 1993: 676). The purpose of privatization was to ensure "the state's power is reduced and the power of the people enhanced" (Thatcher 1993: 676). Thatcher was heavily influenced by economist F. A. Hayek, as well as by her key adviser Keith Joseph.

Thatcher blazed the trail, but there were some precedents for her reforms. In the 1950s, the British Conservatives privatized some industries—including the steel industry—that had been nationalized by the previous Labour government. And in the 1950s and 1960s, West German political leaders Konrad Adenauer and Ludwig Erhard began "denationalizing" industries to improve efficiency and broaden public share ownership. The German government, for example, sold a majority stake in Volkswagen in a public share offering in 1961.

Another influence on Thatcher's government was a Canadian privatization effort. Some of Thatcher's key advisers, including Alan Walters, were familiar with the privatization of the British Columbia Resources Investment Corporation in 1979 (Milke 2012). That process included a distribution of free shares to all citizens in the largest share offering in Canadian history to that date. A 1980 book describing that reform was the first with the word *privatization* in its title (Ohashi and Roth 1980).

Numerous privatization methods have been used in Britain and subsequently in reforms elsewhere. The dominant method has been share issue privatization. The government proceeds with an initial public offering (IPO) of all or a portion of company shares, which is usually followed by a later sale of the remaining shares. British Aerospace was privatized in 1981 with an IPO of 52 percent of its shares, with remaining shares unloaded in later years.

The British Telecom (BT) IPO in 1984 was a mass share offering, which "did more than anything else to lay the basis for a share-owning popular capitalism in Britain," said Thatcher (1993: 680). The government ran high-profile television ads to encourage the purchase of BT shares, and more than two million citizens participated in the largest share offering in world history to that date.

Selling the 250,000-worker BT was a bold decision, and its success generated momentum for further reforms. The OECD (2003: 24) called the BT privatization "the harbinger of the launch of large-scale privatisations" internationally. In subsequent years, the British government proceeded with large public share offerings in British Gas, British Steel, electric utilities, and other companies. In the gas privatization, two million individuals who bought shares had never held corporate equities before (Moore 2016: 211).

A second privatization method is a direct sale or trade sale, which involves the sale of a company to an existing private company through negotiations or competitive bidding. For example, the British government sold Rover automobiles and Royal Ordnance to British Aerospace. Other privatizations through direct sale included British Shipbuilders, Sealink Ferries, and The Tote.

A third privatization method is an employee or management buyout. Britain's National Freight Corporation was sold to company employees in 1982, and London's bus services were sold to company managers and employees in 1994. Management and employee buyouts were also popular in Eastern Europe after the fall of communism. The mass issuance to citizens of free or low-cost share vouchers was also a popular privatization method in Eastern Europe.

In most cases, British privatizations went hand-in-hand with reforms of regulatory structures. The government understood that privatization should be combined with open competition when possible. British Telecom, for example, was split from the post office and set up as an arms-length government corporation before shares were sold to the public. Then, over time, the government opened BT up to competition.

The British government opened up intercity bus services to competition beginning in 1980. That move was followed by the privatization of state-owned bus lines, such as National Express. Numerous British seaports were privatized during the 1980s, and the government also reformed labor union laws that had stifled performance in the industry.

Studies in Britain and elsewhere have found that opening industries to competition is important to maximizing the productivity gains from privatization (Parker 2004: 12). When possible, privatization should be paired with the removal of entry barriers because open competition is preferable to either government or private monopoly. However, British experience also shows that even when industries have natural monopoly elements, privatization combined with improved regulatory oversight spurs gains to efficiency and transparency.

After a leadership challenge from within her party, Margaret Thatcher resigned as prime minister in 1990. Privatization, however, lived on. John Major's Conservative government, for example, privatized British Rail. Tony Blair's Labour government privatized air traffic control. And David Cameron's Conservative government privatized the Royal Mail.

Table 1 lists the major British privatizations since 1979, which was compiled from various sources including Rhodes, Hough, and Butcher (2014). It shows company names at the time of privatization and the year that the first portion of each business was privatized. For less-familiar companies, the industry is noted in parentheses.

Effects of Privatization

Privatization transformed the British economy. Bloated workforces at many formerly state-owned firms were slashed. Employment in the electricity and gas industries was cut in half between the mid-1980s before privatization and mid-1990s after privatization (Lloyd and Nevala 2007: 14). As workforces declined, labor productivity increased. Labor productivity roughly doubled in the electricity and gas industries in the decade after privatization (Department of Energy and Climate Change 2015: 10). Productivity

TABLE 1
Major British Privatizations

Year	Company or Asset
1979	British Petroleum, government council housing
1981	British Aerospace, Cable & Wireless, British Sugar Corporation
1982	Britoil, National Freight Corporation, Amersham International (radioactive materials)
1983	Associated British Ports (seaports), British Shipbuilders, British Transport Hotels
1984	British Telecom, Jaguar, Enterprise Oil, Sealink Ferries
1986	British Gas, National Bus Company
1987	British Airways, British Airports Authority, Rolls Royce, Rover (trucks), Royal Ordnance (military products), Royal Dockyards
1988	British Steel, Rover (automobiles), National Express (intercity busing)
1989	The 10 regional water agencies, Short Brothers (aircraft)
1990	National grid and the 12 regional electricity distribution firms, Girobank
1991	National Power, PowerGen, Scottish Power, Scottish Hydro, Forth Ports (seaports)
1992	Trust seaports, motorway service stops, British Technology Group
1993	Northern Ireland electricity
1994	British Rail, British Coal, London bus services
1996	British Energy (nuclear generation), AEA Technology (nuclear research)
2001	National Air Traffic Services (NATS)
2003	Qinetiq (defense technology)
2006	British Nuclear Fuel
2009	UKAEA Limited (environmental management)
2011	The Tote (retail betting shops)
2013	Royal Mail
2015	Eurostar rail service

Notes: A portion of British Petroleum had been sold in 1977 as part of a deal with the International Monetary Fund. The Thatcher government sold the rest of the shares beginning in 1979. Also, Britain has sold its 40 percent stake in Eurostar, but the rest of the firm is held by the French state-owned rail firm.

increases were particularly pronounced for firms in competitive industries such as British Steel, British Coal, British Telecom, British Airways, and Associated British Ports.

Just knowing that privatization was coming spurred reforms in many companies. British Steel chopped its workforce and improved its productivity leading up to its 1988 privatization, as did British Airways before its 1987 privatization. After privatization, with revenues and profitability rising, British Airways increased its employment to serve expanding markets. That pattern of cost cutting, increased efficiency, and then growth is common among privatized firms.

British consumers benefited as privatization and competition reduced prices and improved service quality. A Treasury study found that real prices after a decade of privatization had fallen 50 percent for telecommunications, 50 percent for industrial gas, and 25 percent for residential gas (HM Treasury 1997: 13). And a decade after electricity privatization, real prices were down more than 25 percent (Parker 2004: 14). The environment gained from the electricity reform as well because the privatized industry moved rapidly to replace coal as a fuel source with natural gas.

The Treasury study (1997: 14) found that "most indicators of service quality have improved" in privatized businesses. Economist David Parker (2004: 16) found, "There is no substantial evidence that lower manning and price reductions in the public utilities have been at the expense of service quality." The share of British Telecom service calls completed within eight days soared from 59 percent to 97 percent in the decade after privatization (Holder 1998: 20). Before privatization, it had taken months and sometimes a bribe to get a new telephone line. By various measures, safety also improved in the privatized industries, including gas, electricity, and water (Bourne and Knox 2013).

Millions of individuals gained from investing in the privatized companies. The government made share offerings appealing to small investors, which fit with Thatcher's belief in "popular capitalism." She wanted to create a "capital-owning democracy . . . a state in which people own houses, shares, and have a stake in society, and in which they have wealth to pass on to future generations" (Yergin and Stanislaw 1998: 97). Under Thatcher, the share of British citizens owning equities soared from 7 percent to 25 percent (Simon 2013).

The British experience in improving industry performance from privatization has been repeated in many other countries. An OECD report reviewed the research and found "overwhelming support for the notion that privatization brings about a significant increase in the profitability, real output and efficiency of privatised companies" (OECD 2003: 9). And a review of dozens of academic studies in the *Journal of Economic Literature* concluded that privatization "appears to improve performance measured in many different ways, in many different countries" (Megginson and Netter 2001: 25). Further academic assessments of privatization are summarized in Edwards (2016).

Rail and Water Controversies

Despite the general success of British privatization, some of the reforms were quite controversial at the time, such as the rail and water privatizations of the 1990s.

State-owned British Rail had been experiencing a long-term decline in its transportation market share, and it was consuming large taxpayer subsidies. In 1994, the government split up the company and privatized separate pieces: Railtrack took control of tracks and stations, 3 separate firms took control of rail freight, and 25 firms received franchises to operate passenger services. The British rail industry went from being vertically integrated to being split into pieces.

In the late 1990s, a few high-profile rail accidents raised concerns about the industry's new structure. Some of the accidents may have been due to insufficient track maintenance in the years before and the years after privatization. Those problems prompted the renationalization of Railtrack in 2002 as Network Rail.

Some experts believe that undoing the industry's vertical integration was a mistake. Before nationalization in the 1940s, British passenger rail was vertically integrated as four regional private rail firms owning both track and rolling stock. So there continues to be uncertainty about the industry's optimal structure.

Nonetheless, passenger rail has flourished since privatization. Productivity has substantially improved, with passenger journeys per employee increasing 37 percent (Association of Train Operating Companies 2013) since the reforms. And, unlike elsewhere in Europe, total rail ridership in Britain has soared. By 2014, total passenger trips had more than doubled since privatization, from 740 million to 1.5 billion (Department of Trade and Investment 2014). Rail ridership is now hitting levels not seen since the early 1920s (Vranich 2004: 144).

Despite the growth in passengers, the on-time performance of British passenger rail improved in the years immediately following privatization (Merkert and Nash 2006: 82). And despite a few high-profile accidents in the 1990s, the overall safety record of British rail has steadily improved since privatization (Merkert and Nash 2006: 83). Surveys find fairly high levels of customer satisfaction with British rail travel today (Association of Train Operating Companies 2013).

In 2013, the European Commission found that Britain's railways were the "most improved" in all of Europe since the 1990s and were second only to Finland's in customer satisfaction (Department of Trade and Investment 2014). U.S. passenger rail expert Joseph Vranich (2004: 147) noted that "private operators [in Britain] have demonstrated more initiative, imagination, and visionary planning than state-run British Rail did in its prime or Amtrak does today." In sum, British rail reform has been a success, not the failure that some critics have claimed.

Turning to water industry reforms, the government privatized 10 regional water and sewer agencies in 1989 and created a new regulatory authority to oversee them. After the reforms, people complained that water prices rose. And, indeed, water prices did initially rise. But those increases stemmed from new private owners increasing capital investment to modernize very old government infrastructure. Privatization gave the companies access to the capital they needed to upgrade.

Put another way, water prices had been kept artificially low under government ownership, which led to underinvestment and inefficient overconsumption. After increases in the first six years following privatization, British water prices have risen just 9 percent in real terms over the past two decades (National Audit Office 2015: 7).

Efficiency and service quality have increased in the British water industry since privatization. Wasteful leaks have fallen by one-third since privatization, supply interruptions are down, and the number of customers with low water pressure has plummeted (Ofwat 2006, Day 2012, and National Audit Office 2015). Drinking water quality has improved, and pollution has fallen. In sum, water service privatization has increased both efficiency and environmental stewardship.

Global Influence

Since Margaret Thatcher got the ball rolling in 1979, more than 100 countries have privatized many thousands of state-owned businesses. In France, the Jacques Chirac government sold 22 major companies in 1986 and 1987 (Megginson 2005: 17). Then in the 1990s and 2000s, both conservative and socialist governments in France continued to privatize. The number of companies in which the French government holds a majority stake has plunged from 3,000 in the early 1990s to about 1,500 mainly smaller companies today (Brauninger 2013, 2015).

In New Zealand, a Labour government elected in 1984 privatized dozens of state-owned companies including airports, banks, energy companies, forests, and the national airline and telecommunications companies. In Australia, a series of governments privatized dozens of companies in the 1990s and 2000s, generating proceeds of more than $100 billion.

During the 1980s and 1990s, Canada privatized more than 50 major businesses, including electric utilities, energy companies, the national railway, and the national airline (Boardman and Vining 2012). Perhaps Canada's most innovative privatization was the 1996 transfer of its air traffic control (ATC) system to a nonprofit corporation, Nav Canada. In recent years, the company has become a global leader in ATC innovation and technologies. The system is self-financing, raising revenues from charges on aviation users. Nav Canada has cut its workforce 30 percent since privatization, even though it is handling 50 percent more traffic (Robyn 2015).

Privatization swept through many developing nations. In Latin America, Chile, Mexico, and Panama had particularly large and successful privatization programs. Mexico, for example, slashed the number of state-owned firms from 1,155 in the early 1980s to just 210 by the early 2000s (Chong and López-de-Silanes 2014: 8). In Eastern Europe, huge privatizations were pursued after the fall of communism, and the government share of total economic output in that region fell from about three-quarters in 1990 to about one-quarter today (Borrmann et al. 2013: 18).

Privatization has attracted opposition from the public in many countries, but very rarely have reforms been undone once they have been put in place, at least in the developed nations. In Canada, for example, none of the more than 50 major privatizations have been reversed. The reason is that privatization simply works, and so reforms have generally lasted through both liberal and conservative governments.

Today, many countries have privatized the "lowest hanging fruit." But there is much left to sell, and global privatization is continuing at a robust pace. Over the past four years, governments worldwide have sold an average $203 billion of state-owned businesses annually (Megginson 2015). China is now the largest privatizer, but some developed nations continue to pursue reforms as well.

What about the United States? Despite the global success of privatization, reforms have largely bypassed our federal government. President Ronald Reagan's administration explored privatizing the U.S. Postal Service, Amtrak, the Tennessee Valley Authority, the air traffic control system, and federal land, but those efforts stalled. President Bill Clinton's administration was more successful: it oversaw the sale of the Alaska Power Administration, the Elk Hills Naval Petroleum Reserve, the U.S. Enrichment Corporation, and Intelsat.

But little action on privatization has been pursued since then, even though Britain and other countries have shown that postal systems, passenger rail, electric utilities, air traffic control, and other "public" services could be run better privately. The same is true for numerous business activities run by U.S. state and local governments, such as seaports and airports.

The United States has always been a land teeming with bold entrepreneurs. Privatization would allow those innovators to inject fresh capital, new ideas, and dynamism into a range of industries currently stifled by political control and bureaucracy.

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